

THE INFLUENCE OF *DAU* (GENERAL ALLOCATION FUND) AND *DAK* (SPECIAL ALLOCATION FUND) ON CAPITAL EXPENDITURE OF BALI PROVINCE

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ABSTRACT

Due to the governmental implementations and services to the public in accordance with the decentralization principle, the regional areas have the authority to collect taxes/levies and manage the Natural Resources (SDA). The regional areas' funding sources consist of Own-Source Revenue (PAD), Fiscal Balance/Revenue Sharing Fund (DBH), General Allocation Fund (DAU) and Special Allocation Fund (DAK) which are directly managed by the regional government through its Regional Revenue and Expenditure Budget (APBD). This research aims at analyzing the influence of PAD, DAU, and DAK on capital expenditure of Bali province. The research population is all city/regency governments in Bali. This research employs a census method involving all Regencies and municipalities in Bali Province. The data are the regional government expenditure realization during the period of 2010 to 2015. The results show that PAD does not significantly influence Capital Expenditure, while DBH, DAU, and DAK significantly influence Capital Expenditure.

Keywords: PAD, DBH, DAU, DAK, and Capital expenditure

INTRODUCTION

The government undertakes reformation in financial management on the rights, authorities and obligations of Regional Government. The above authority is based on Law No. 22 of 1999 amended to Law No. 32 of 2004. In Law No. 32 of 2004 starting on January 1, 2001, the political decision has brought onto a good governance and public economy empowerment. Regional autonomy provides a sufficient authority in establishing community-based development programs (public economy) and the ability to design and execute programs appropriate to the condition of each and every region. The regional government shall fulfill autonomy principles, namely: democratization, transparency, public accountability and public participation.

Article 1 point (h) Law No. 32 of 2004 on Regional Government and Law No. 33 of 2004 on Fiscal Balance between Central Government and Regional Government imply that financing the governance based on decentralization principles is conducted based on Regional Revenue and Expenditure Budget (APBD). The regional government is provided with the authority to collect taxes/levies and to manage its own natural resources. The financial resources for the local regions consist of Own-Source Revenue (PAD), Fiscal Balance/Revenue Sharing Fund (DBH), General Allocation Fund (DAU) and Special Allocation Fund (DAK), Local Loan,

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Deconcentration and Assisting Task. The main three resources are directly managed by Regional Government through *APBD* while other resources are managed by the Central Government through cooperation with Regional Government (Halim, 2007).

Capital budgeting is designed to meet public needs for facility and public infrastructure provided by the regional government. The political interest of legislative body involved in the preparation of budgeting process lead to capital expenditure allocation distorted and often ineffective in solving the problems/issues in the community. The era of fiscal decentralization is an era where the government starts to implement service improvements in various sectors. This service improvement is expected to increase investors' interests and public trust which can be done with an increase in capital investment in the form of premises, such as equipment, buildings, infrastructure and other fixed assets. Political interests may disrupt the development of the current fiscal decentralization era. The above phenomenon can disrupt the execution and the objective of decentralization. Ermasova *et al.* (2014) state that Own Source Revenue (*PAD*) is determined by the condition of the pertaining regional resources. The higher the *PAD*, the higher will be the capital expenditure allocation. Maximum local revenue increases a capital expenditure allocation; hence it shall improve service for the community. The reality is, however, far different with the condition in Indonesia. Nurlis (2016) found that capital expenditure allocation in all provinces in Indonesia is not determined by the *PAD*, but by other regional revenues.

Based on the above description, the main research problems of the study are: 1) Does Own Source Revenue (*PAD*) significantly influence Capital Expenditure? 2) Does Revenue Sharing Fund (*DBH*) significantly influence Capital Expenditure? 3) Does General Allocation Fund (*DAU*) significantly influence Capital Expenditure? 4) Does Special Allocation Fund (*DAK*) significantly influence Capital Expenditure? The objectives of this study are to figure out the significance of *PAD* influence on Capital Expenditure, the significance of *DBH* influence on Capital Expenditure, the significance of *DAU* influence on Capital Expenditure, and the significance of *DAK* influence on Capital Expenditure.

Research Significance

This study aims at providing contribution on information to the public as well as regency and city governments in Bali Province regarding its Capital Expenditure and influence of *PAD*, *DBH*, *DAU*, *DAK* on Capital Expenditure. The other significance includes providing information to public and government sectors regarding to the capital expenditure management which is expected to improve the management of *PAD*, *DBH*, *DAU* and *DAK* for the benefit of the community by increasing absorption of the above funds regarding to the capital expenditure optimization and public interest.

LITERATURE REVIEW

Regional Revenue and Expenditure Budget (*APBD*)

Regional Revenue and Expenditure Budget (hereinafter called, *APBD*) is the annual local government financial plan which is approved by the Local Regional People's Representative Assembly (Law No. 17 of 2003, article 1 point 8 on State Finance). *APBD* is a fundamental

regional financial management in one year budget which is an execution plan of all Regional Revenues and all Regional Expenditures in order to implement decentralization within a certain fiscal year.

Own Source Revenue (PAD)

Own-Source Revenue is the right and obligation in the context of local governance which can be evaluated using money, including all forms of property related to both right and obligation of the pertaining region (Government Regulation of the Republic of Indonesia No. 58 of 2005). Halim (2004:67) explains that sources of regional autonomy revenues include: key components of Own Source Revenue (PAD) are local tax, local retribution, company's revenue and local own source assets and other legitimate own source revenues.

Fiscal Balance (DP)

In order to implement decentralization, the local regions are provided with Fiscal Balance (DP) via APBN through transfer with the principle of *money follows function*. One of the objectives of such provision of Fiscal Balance is to decrease a fiscal gap between the central and local governments, and amongst regions, and to increase regional capacity in exploring the local economic potentials. Looking at the relation aspect of central and local government, Elmi (2002:55) states that the above policy is expected to create a fair and proportional financial sharing. This means that the regions with natural resources shall receive a bigger revenue sharing while other regions shall prioritize its fund from General Allocation Fund (DAU) and Special Allocation Fund (DAK). A Fiscal Balance consists of:

a. Revenue Sharing Fund (DBH)

According to Syarifin and Jubaedah (2005:108), the source of revenue sharing fund is the State Budget (APBN) allocated to the regions based on a percentage to finance the regional needs in the context of decentralization. The influence of revenue sharing fund on regional expenditure was stated by Prakoso (2011) that a reduction of revenue sharing fund may lead to a decline in state expenditure.

b. General Allocation Fund (DAU)

DAU (General Allocation Fund) is a fund from APBN allocated with the objective to financial capacity equity among regions to finance the regional needs in the context of decentralization. Based on the description in Law No. 33 of 2004, it can be concluded that DAU is a mean to overcome fiscal gap among the regions, and to provide resources of regional funding. According to Law No. 33 of 2004, DAU allocation is established at least 26% (twenty six percent) of the Net Domestic Revenue as established in APBN. The proportion of DAU distribution for a province and district/city is determined according to a balance of authority amongst provinces and Regencies/cities. DAU is one of the components and balance in APBN whose allocation is based on the concept of fiscal gap or fiscal gap with the difference between fiscal needs and fiscal capacity (Sidik, 2003:25).

c. Special Allocation Fund

Based on Law No. 33 of 2004, Special Allocation Fund is a fund from APBN allocated to a certain regions with the objective to help financing a special activity of a regional affair and in

accordance with national priority. The utilization of *DAK* is directed on development investment activities, procurement, improvement, and repairing physical facilities and infrastructures of long economic life, including procurement of supporting physical facilities.

d. Capital Expenditure

According to Halim (2004:73), capital expenditure is a Regional Government expenditure whose benefit exceeds more than one year budget and shall increase regional assets or properties, and further it shall increase routine expenditure such as maintenance cost within general administration expenditure group. Capital Expenditure can also be assumed as expenditure spent in the context of capital formation which adds to a fixed asset/inventory that benefits more than one accounting period, including expenditure for maintenance cost which maintains or adds the benefit lifespan, increases capacity and asset quality.

Hypothesis

PAD includes all regional revenues that come from potential resources in the region. Regional tax and retribution have the biggest proportion within *PAD*, thus there is an assumption that *PAD* is identical with regional tax and levies. Ermasova *et al.* (2014) found that the government allocation expenditure is highly determined by regional revenue. A study by Abdullah and Halim (2003) also shows that there is an influence of *PAD* on capital expenditure.

H1: The regional Own Source Revenue positively influences capital expenditure.

Revenue Sharing Fund is the fund that comes from *APBN* reserved to decrease the gap between the central and regional government, based on the percentage of tax and non-tax sharing revenue fund. Rahardjo (2011) said that sources of revenue sharing fund are tax and non-tax. Prakoso (2004) however states that a reduction in revenue sharing fund will impact the regional expenditure, hence it can actually decrease regional capital expenditure.

H2: Revenue Sharing Fund influences positively on capital expenditure.

The General Allocation Fund (*DAU*) received by the Regional Government can be allocated for capital expenditure. Although regional autonomy has been implemented for years, however, in reality there are still several Regencies/cities which still rely the source of their government funding from fiscal balance (transfer fund from the central government). The amount of *DAU* is ascertained to increase the amount of Regional revenue.

H3: General Allocation Fund influences positively on capital expenditure.

The source of the second fiscal balance is special allocation fund (*DAK*). The *DAK* will help reduce the burden of special activity cost borne by the Regional Government. One of the sources of fund for capital expenditure comes from Special Allocation Fund (*DAK*).

H4: The General Allocation Fund influences positively capital expenditure.

RESEARCH METHOD

This study took place within the Governmental District and City offices of Bali Province. This study uses secondary data from document report of *APBD* realization, taken from

www.djpk.depkeu.go.id and Central Bureau of Statistics (BPS). The collection of research data is conducted using documentation method. Population for this study is all district and city government in Bali Province. Data examined is realization data of *APBD* and *APBD* from 2010-2015. Analysis techniques used in this study include descriptive statistic, and analysis technique of multiple linear regressions.

RESULT AND DISCUSSION

Results of Hypothesis Testing

The result of classical assumption test used in this study has passed all classical assumption tests, including normality test, autocorrelation, multicollinearity, and heteroscedasticity.

Analysis of Multiple Linear Regressions

Table 1				
Result of Multiple Linear Regression Analysis				
Variable	Regression Coefficient	t-calculation	Sig.	Description
Y	1E+011	4.057	0.000	R ² = 0.222
X ₁	0.099	1.256	0.215	N = 9
X ₂	2.105	3.205	0.002	df = 49
X ₃	-0.321	-2,178	0.034	Fcalculation = 3.499
X ₄	2.072	2,186	0.034	

Model Fit Test

Based on table 1, we got $F_{\text{calculate}}$ of 3,449, with the significance of $0,014 < \alpha$ a significant level of 0.05. The above analysis result demonstrates that Own Source Revenue (*PAD*), Revenue Sharing Fund (*DBH*), General Allocation Fund (*DAU*) and Special Allocation Fund (*DAK*) altogether significantly influence the Capital Expenditure in all Regencies and Cities of Bali Province.

Partial Test (t test)

Result of H1 test in table 1 shows that Own Source Revenue does not significantly influence the Capital Expenditure in all Regencies/Cities of Bali Province. The above result is in accordance with the study conducted by Nurlis (2016). The insignificant influence indicates that own source revenue is a highly important source of revenue for regional government in all Regencies/Cities of Bali Province, however, it cannot be used as a reference in planning the capital expenditure budget. All Regencies and Cities in Bali Province experienced a sharp decline in *PAD*. In 2011, the increase of *PAD* was 43.99% with an annual *PAD* in 2011 of Rp. 2,491,327,849,000 from *PAD* in 2010 of Rp. 1,730,219,000. In 2012, the government experienced a decline in *PAD* by 29.84% from the previously *PAD* in 2011 of Rp 3,324,837,394,000 and experienced decline in the following years. Compared to *PAD*, the capital expenditure experienced an increase in its allocation, from 24% in 2011 to 74.41% in 2012; however, it experienced a decline in the following year. The above result indicates that planning of regional government capital expenditure is based on other factors. Based on the theory of *federalism fiscal*, the government (both executive and legislative bodies) makes the decision adjusted to every regional government and condition. In addition, these efforts by

regional government to increase capital expenditure were not fully supported with efforts to improve public service (Halim and Abdullah, 2003).

Result of H1 test in table 1 shows that Revenue Sharing Fund does significantly influence the Capital Expenditure in all Regencies/Cities of Bali Province. The above result is in accordance with the study conducted by Darwanto and Yustikasari (2007). This demonstrates that *DBH* (revenue sharing fund) is one amongst the many important funds for regional government in the effort to meet its capital expenditure; hence the request to central government in meeting regional capital expenditure is increasing. The *DBH* in 2012 experienced a great significant increase. In 2011, *DBH* experienced a decline by 26.01%, from *DBH* in 2010 of Rp. 550,546,380,000 to *DBH* in 2011 of Rp. 407,374,229,000. In 2012, *DBH* experienced a great significant increase by 24.90%, in which it reached Rp. 508,804,935,000 and experienced decline in the following years. Compared to *DBH*, allocation of capital expenditure experienced an increase from 24% in 2011 to 74.41% in 2012, however, it experienced decline in the following years. The increase of capital expenditure must be based on an increase in request for revenue sharing fund by regional government to central government. A high demand for central government fund from regional governments indicates that decentralization is not yet optimally implemented by regional governments, and a high degree of regional government dependency on central government.

Result of H1 test in table 1 shows that the General Allocation Fund does significantly influence the Capital Expenditure in all Regencies/Cities of Bali Province. The above result is in accordance with the study conducted by Sumarni (2009). This is evident from an increase in 2011 by 20.95%, from 2010 of Rp. 3,059,676,939,000 to Rp. 3,700,679,258 in 2011. In 2012, the amount declined by 17.98%, but it has been increasing in the following years. Compared to *DBH*, allocation of capital expenditure experienced an increase from 24% in 2011 to 74.41% in 2012, and it experienced a decline in the following years. The general allocation fund is allocated based on a concept of fiscal gap. Finding of the study shows that *DAU* influences negatively and significantly the capital expenditure. *DAU* has a function to decrease the gap among Regions and Cities throughout Indonesia. The result that shows both *DAU* and capital expenditure are still negative implies that the higher transfer of *DAU* from central government, the lower the fiscal gap is, thus the contribution on capital expenditure is lower too. A lower *DAU* implies higher fiscal gap, hence a higher contribution on capital expenditure. Result of this study demonstrates that the goal of decentralized governance to allocate general allocation fund can already be optimized and there is no significant dependency from regional government on central government.

Result of H1 test in table 1 shows that General Allocation Fund does significantly influence the Capital Expenditure in all Regencies/Cities of Bali Province. The above result is in accordance with a study conducted by Sumarni (2009) and Darwanto & Yustikasari (2007). Increase of capital expenditure must be based on an increase in request for general allocation fund by regional government on central government. In 2011, *DAK* experienced a decrease by 16.96%, from *DAK* in 2010 of Rp. 325,217,100,000 to Rp. 270,059,925,000 in 2011. In 2012, *DAK* experienced a significant increase by 9.69%, in which the *DAK* reached Rp. 296,229,233,000

and experienced decline in the following years. Compared to *DAK*, allocation of capital expenditure experienced an increase from 24% in 2011 to 74.41% in 2012, however, it experienced decline in the following years. The above result demonstrates that the goal of decentralized governance to allocate general allocation fund can already be optimized and there is still a significant dependency from regional government on central government.

CONCLUSION

Based on the results of above analysis and discussion, this study concludes that Own Source Revenue (*PAD*) does not positively and significantly influence Capital Expenditure in all Regencies/Cities of Bali Province, the Revenue Sharing Fund and Special Allocation Fund both positively and significantly influence Capital Expenditure in all Regencies/Cities of Bali Province, and Special Allocation Fund significantly influences Capital Expenditure in all Regencies/Cities in Bali Province.

The research results also show that most Regencies and Cities in Bali Province are still dependent on fiscal balance (*DP*) in determining allocation of capital expenditure, thus the regional government must be able to increase its independency. For further study, we would expect to examine the level of independency in all Regencies and Cities, considering that the significant result of this study is the fiscal balance (*DBH*, *DAU*, and *DAK*) which implies a high dependency of regional government on central government.

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